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Endowments as a Tool for Sustainable Development

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PREFACE

This study was conducted over a two-month period in 1996. Data were collected through interviews, primarily with USAID staff, and through document review. The assistance of Naydu Yaniz and Molly Davis, both from the Research and Reference Services Project of USAID's Center for Development Information and Evaluation (CDIE), is greatly appreciated. Ms. Yaniz collected data on other donor use of endowments and drafted that section of the report. Ms. Davis assisted with data collection on USAID experience and developing country foundations.

The study benefited greatly from the expertise of many individuals, primarily from USAID, who generously participated in interviews, provided written materials, and made suggestions on the structure and content of the study report. Gerald M. Britan, Acting Director of CDIE, was especially helpful in his review of report drafts. Special thanks go to Marcy Bernbaum, CDIE Senior Policy Advisor, who facilitated many interviews and provided valuable feedback on the report. The authors retain full responsibility for any errors in this study, however, and hope any such errors will not detract from its usefulness.

EXECUTIVE SUMMARY

USAID has considerable experience in establishing endowments and is at the forefront of donor involvement in this area. USAID has directly funded about 35 endowments, primarily with local currency. The majority of these are in Latin America and the Caribbean. There are two endowment models: those that strengthen an institution to help ensure its financial sustainability, and those for local grant-making organizations.

Because of the newness of most endowments and the scarcity of evaluations, the study does not definitively assess the impact and sustainability of USAID-funded endowments. However, all the endowed organizations continue to exist and seem to be making strong contributions to development. A full field-based evaluation is needed to assess impact and sustainability, as well as to determine the institutional characteristics of "successful" endowed organizations.

Several lessons can be learned from USAID and other donor involvement in setting up endowments. These include the need for adequate financing to establish the endowment; the strategic use of matching funds to leverage USAID resources; and the importance of organizational independence from government or secular interests. The study's principal conclusions are that:

- Under the appropriate conditions, endowments can be a viable option for providing long-term sustainable development in countries with or without a USAID presence.
- Using endowments can be an important strategy for increasing the capabilities of indigenous organizations as development partners.
- Strong institutions that are well-managed and have successful track records are an essential prerequisite to funding an endowment.
- By their very nature, endowments involve less USAID monitoring and oversight than other types of activities. Instead, safeguards are built into the endowment design.

A number of factors should be considered when determining the feasibility of an endowment. For example, the country's legal, regulatory, and financial environment should be amenable to establishing an endowment. The purpose of the endowment should be consistent with the development priorities of USAID and the host country. The risks and benefits of alternative financing mechanisms should be explored to ensure that an endowment is the most appropriate funding vehicle.

Endowments appear to be a reasonable strategy for promoting sustainable development. Because they encourage organizational self-reliance, endowments promote more independent partnerships with USAID. When they are well designed and consistent with

USAID and host country development priorities, endowments are a "natural" for countries graduating from USAID assistance.

INTRODUCTION

There is considerable interest in the U.S. Agency for International Development regarding the use of endowments as a financing mechanism. Endowments show potential as a means of developing self-reliant, effective local organizations. Endowments can enhance an organization's financial sustainability, and are a way to leverage other public and private funding resources. Endowments also can be a mechanism for developing civil society by encouraging local involvement in development. These concerns become increasingly more important in times of diminishing donor resources for development.

In April 1996, USAID Administrator J. Brian Atwood requested the Center for Development Information and Evaluation (CDIE) to conduct a study examining the experience of USAID, other donors, and developing countries in establishing endowments and foundations. The purpose was to determine whether these entities are viable and sustainable; to explore their potential for fostering effective development assistance activities; and to assess the extent to which they can be used to fulfill development objectives after USAID departure from a country.

To date, there have been no studies examining the status of USAID-funded endowments set up in the 1980s with local currency funds, nor a review of endowments recently established with appropriated dollars. The objective of this study is to begin filling that gap, and to examine what has been done outside USAID. The study focuses primarily on USAID experience, providing an overview of the types of endowments that USAID has funded and highlighting several case studies.

Among international donors, USAID has considerable experience in establishing endowments. Most donor involvement has been limited to the environmental sector. The study also briefly examines the growing interest of private donors in creating and endowing private philanthropic organizations in developing countries.

Most USAID-funded endowments have been established only recently, and there are few formal evaluations available. Thus, this study cannot definitively assess the effectiveness or sustainability of endowments. Preliminary evidence indicates, however, that endowments can be financially sustainable and that they contribute to sustainable development. The study provides a number of "lessons learned" in setting up endowments, as well as considerations in deciding when it is appropriate to use an endowment.

BACKGROUND

What is an Endowment?

An **endowment** is a fund that has been set aside for a specific purpose. Generally, endowments are designed to disburse only the income from the assets; the principal or "corpus" of the fund remains intact and invested (PROFIT 1994:3). A **foundation** is an organization with one or more funds of its own, managed by its own trustees or directors, and established to promote social, educational, charitable, religious, or other activities serving the common welfare (F. Emerson Andrews, as cited in Rigby et al. 1993:7). While most foundations are nonprofit and nongovernmental, some are quasi-public, such as the National Endowment for Democracy. The goal of most foundations is to build an endowment to establish a permanent collection of funds (Rigby et al. 1993:8). This study focuses primarily on endowments (a funding mechanism), rather than on foundations (an organizational structure), although there clearly are areas of overlap in terms of management.

The terms "trust," "capital fund," "sinking fund," and "endowment" describe similar financial arrangements, although there are differences in the ways they are managed. A trust is a fund whose assets are managed by a person or group ("trustees") on behalf of another group ("beneficiaries"). A board of directors, sometimes called the board of trustees, is responsible for managing the trust's assets, following the terms of the trust agreement and applicable laws (Mikitin and Osgood 1995:6). Several USAID-funded endowments, particularly ones created with U.S.-appropriated dollars, are in the form of trusts. A capital fund is an endowment that is managed by the endowed organization (Lion 1992:3). A sinking fund is designed to disburse the entire principal over a fixed period (Mikitin and Osgood 1995:8).

A number of other funding arrangements are available to donors to address the need for sustainable financing of international development activities. With revolving funds, new resources are added to the principal as existing funds are spent, replenishing or augmenting the original principal amount (Mikitin and Osgood 1995:8). The Belize "Protected Areas Trust Fund" (PACT), which the World Wildlife Fund helped design, is an example of a revolving fund. PACT is financed by a \$20 conservation fee collected from each foreign tourist who arrives in Belize. These fees are expected to contribute more than \$2 million in new revenues each year for the trust fund (Larson 1993:7-8). Most of USAID's experience, however, has been in setting up endowments that are intended to last indefinitely, rather than establishing sinking or revolving funds.

Debt swaps, another funding mechanism, involve the purchase of developing country debt by a third party (usually a nongovernmental organization [NGO]) at a discounted value in the secondary debt market. The debt is cancelled, and local currency proceeds are used

for development activities. Many U.S. environmental NGOs also have used this funding mechanism to conduct debt-for-nature swaps. The proceeds from debt swaps can be used to establish an endowment.

Legislative History

Prior to 1990, U.S. appropriations law prohibited grantees from retaining interest earned on appropriated dollars. As a result, endowments could not be established with dollars appropriated to USAID, or with local currency acquired by the exchange of these dollars. Endowments could be established with USAID funds only through Congressional approval or by using host country-owned local currency (USAID 1994a:1-2).

Legislation enacted as part of the Fiscal Year (FY) 1990 foreign assistance appropriations act allowed for the establishment of endowments with local currency acquired through the exchange of appropriated dollars. This legislation was directed mainly at transactions involving debt swaps (USAID 1994a:2). In FY 1993, Congress expanded this authority to permit NGOs to retain interest on, and thus establish endowments with, appropriated dollars as well as those converted into local currency. Since enactment of the 1993 legislation, USAID has set up at least nine endowments with appropriated dollars. In July 1994, USAID issued guidelines for establishing dollar-appropriated endowments (USAID 1994a).

Because of legislative restrictions, most pre-1990 USAID endowments were financed with host country-owned local currency. The U.S. government, however, can now directly grant appropriated dollars for an endowment. Dollar appropriated endowments must be invested with a U.S.-based assets manager (USAID 1994a:7). The rationale for this requirement is to ensure the security of the investment; to protect it from devaluation; and to provide ready access to the funds if the U.S. government has to dissolve the endowment. With both types of endowments, however, certain checks and balances are put in place to ensure funds are used for the designated purpose.

Why Choose an Endowment?

There are a number of reasons for choosing an endowment over another funding vehicle. USAID experience indicates that earlier local currency endowments often were used to promote the financial sustainability of an individual institution. Several recent dollar-funded endowments, on the other hand, have been used to provide a secure funding base for local grant-making foundations. Frequently-cited advantages of endowments include the following:

- **Providing a secure funding source.** Endowments are sometimes used to ensure a secure source of funding for an organization, to help it move toward financial

sustainability, or to insulate it from government or donor agency budget fluctuations (USAID 1994a:4).

- **Supporting local capacity building.** Endowing a local NGO can help it expand its financial management, programmatic (grant-making) and fund-raising capabilities.
- **Expanding sectoral support.** Endowments can broaden the funding base for activities in a particular sector. Endowment funding has been frequently used in the environmental sector, for example, because of the long-term commitment needed to make sustained improvements in the environment. Several USAID-funded endowments have been established for grant-making environmental foundations (e.g., Indonesia, Mexico, Panama, and the Philippines).
- **Developing civil society.** Establishing an endowment (and, frequently, a companion local foundation) can be a way to encourage local participation in development and to expand the foundations of civil society. In some cases (e.g., the Mexico Nature Conservation Fund), diverse groups join together for a common purpose. The Boards of Directors of many endowed foundations often are composed of a majority of NGOs or community leaders.
- **Encouraging local philanthropy.** In many countries, the philanthropic tradition is not well established. Providing an endowment to a local organization, particularly when matching funds are required, is one way to encourage the development of local philanthropy (USAID 1994a:4).
- **Leveraging other sources of funds.** A USAID-funded endowment can be designed to provide a specified portion of the total amount of required funds, with the endowed organization responsible for securing additional funding. Thus, an endowment can be used for leveraging funds from local sources as well as from external donors. Endowing an organization with U.S. government funds, with their associated conditions and safeguards, may make it easier for the organization to attract funds from other sources (USAID 1994a:4).
- **Leaving a U.S. development "legacy."** Establishing an endowment is one way for USAID to continue supporting local development activities after the closure of a USAID Mission (USAID 1994a:4). Examples of this strategy include the dollar-funded Panama Ecological Trust Fund and the Costa Rica/USA Foundation.

Key USAID Resources on Endowments

USAID staff who are considering the use of an endowment should first become familiar with USAID's policy guidance, *Guidelines: Endowments Financed with Appropriated Dollars (USAID Policy Determination 21)*. These guidelines, also known as PD-21, were developed by USAID's Bureau for Policy and Program Coordination in 1994. PD-21 outlines USAID's policy regarding the establishment of dollar-funded endowments, types of organizations eligible to receive endowments, and administrative and contractual procedures, including financial management arrangements. Guidance to assess the appropriateness of using an endowment and in designing the endowment structure are included (USAID 1994a). Although the guidelines were developed for dollar-funded endowments, they also are helpful in designing local currency endowments.

Another useful publication, *Terms of Endowment: A New A.I.D. Approach to Sustainable Development*, was prepared by Gary Hansen of USAID's Center for Development Information and Evaluation (CDIE) in 1990. It provides an overview of several local currency endowments established in Latin America and the Caribbean in the mid-1980s. Given the newness of the endowments, the study does not assess their impact. The report provides useful information, however, on topics such as the purpose of endowments, managing an endowment, and other issues (Hansen 1990).

USAID EXPERIENCE WITH ENDOWMENTS

The conventional wisdom is that USAID is relatively inexperienced with the use of endowments, but data collected for this study indicate the opposite. An informal survey uncovered about 35 endowments (both local currency and dollar) that were directly funded by USAID. In addition, there are seven U.S. Government-sponsored Enterprise for the Americas Initiative (EAI) Funds in Latin America that were set up through debt reduction arrangements. This inventory of USAID-funded endowments is a continuing process; there may be additional endowments that have not been included here. A summary table is presented in Appendix A, with a brief description of each endowment in Appendix B.

The focus of the study is on endowments USAID directly funded or arranged with the host government for local currency funding.¹ Most of USAID's experience with local currency endowments has been in the Latin America and Caribbean region, while the dollar-appropriated endowments show broader regional representation. For most of the endowments highlighted below, there was an available USAID evaluation or audit.

Local Currency Endowments

Some early USAID endowments in the 1970s and 1980s were in the form of trust agreements to support binational foundations that replaced direct USAID programs. For example, in 1985 USAID helped establish the Luso-American Development Foundation in Portugal. Its goal was to promote economic and social development by encouraging cooperation between Portugal and the United States in science, technology, culture, education, and commerce. USAID granted approximately \$118 million in Economic Support Funds (ESF) to the Government of Portugal, which, in turn, provided funding for the endowment (USAID 1989b:75).

Latin America

In the mid-1980s, several USAID Missions and host governments in Latin America and the Caribbean collaborated in setting up and funding endowments (Hansen 1990:1). One factor that facilitated the establishment of endowments in the region was the presence of an enabling legal and financial infrastructure. For example, the existence of laws and regulations relating to endowments and foundations, including those that protect against the ability of the government to seize assets, is important (Rigby et al. 1993:49). The absence of this infrastructure in Africa has contributed to the limited USAID funding of endowments

¹ The study also uncovered a few cases in which USAID helped an NGO establish its own endowment (e.g., by granting funds to cover initial operating costs). Although these cases are not included in this report, they also contribute to the Agency's expertise with endowments.

in that region. Local currency endowments in Latin America and the Caribbean are in agricultural education, development and research; environment; export promotion; and sustainable development.

USAID has funded endowments for several agricultural schools. In 1985, USAID and the Government of Costa Rica jointly funded the Agricultural College of the Humid Tropical Region (EARTH), a four-year undergraduate institution. A local currency endowment of \$60 million was established to help cover the college's operating expenses (Hansen 1990:18). A 1991 audit revealed that the endowment principal was \$14.1 million short of the projected 1990 level, however. This decrease was due largely to a three-year delay in transferring funds to the endowment; local currency devaluations reduced the amount transferred (USAID 1991:4). According to a recent interview with a USAID/Costa Rica officer, the endowment fund has been effectively managed.

In addition to supporting educational institutions, USAID endowed several agricultural development foundations in Ecuador, Honduras, and the Dominican Republic. In 1984, USAID helped establish the Honduran Agricultural Research Foundation (FHIA), awarding a 10-year grant to help cover operating and program expenses (Hansen 1990:14). In 1993, USAID and the Government of Honduras granted funds to FHIA for establishing an endowment. A 1994 evaluation of FHIA concluded that the organization has developed into a viable research institution with an international outlook; since the endowment was just created in 1993, its impact could not be assessed. The overall evaluation points out, however, that the present endowment structure will enable FHIA to maintain its current level of core services for the foreseeable future (Easterling et al. 1994:1).

In the Dominican Republic, a USAID grant to the Agricultural Development Foundation (ADF) in 1987 promoted research in nontraditional crops, established a technical information center, and set up an endowment to support the foundation. A 1993 Project Assistance Completion Report stated that ADF was able to more than double its local currency endowment. However, the fall in the foreign exchange rate "wiped out the gain in dollar terms," leaving the endowment with about \$2.7 million at the time of the evaluation, slightly more than half of its dollar-equivalent starting value (USAID 1993a:6).

Several local currency endowments for the environment also have been set up in the region. These include the Foundation for the Development of the Central Volcanic Cordillera (FUNDECOR) in Costa Rica, the Jamaica National Parks Trust Fund, and the Honduran Environmental Trust Fund. The Jamaica National Parks Trust Fund was established under the Protected Areas Resources Conservation project, initiated in December 1990. The Nature Conservancy, a U.S. NGO, facilitated a debt-for-nature swap of approximately \$400,000 to fund a local currency endowment held by the Jamaica Conservation and Development Trust (Church et al. 1994c:5-6). The creation of a trust fund helped to attract additional capital assets to support local conservation efforts. Since its establishment, the Jamaica Conservation and Development Trust has obtained funding

from several environmental foundations, foreign governments and Jamaican business firms, increasing the endowment from about \$400,000 to nearly \$1.2 million in 1994 (Church et al. 1994c:17).

The only local currency endowment for export promotion identified in Latin America is the Costa Rican Export Promotion Fund (FUNDEX). This fund was established to provide grants to organizations and agencies that promote foreign investment and exports. The main beneficiary of FUNDEX was the Costa Rican Coalition for Development Initiatives (CINDE), a private sector institution established in 1982 with USAID support.

FUNDEX was set up as a five-year fund that would end in 1996 unless the Government of Costa Rica and USAID agreed to extend it. An evaluation of FUNDEX was conducted in 1995 to determine whether or not funding for trade liberalization should continue, and, if so, under what conditions. The evaluation concluded that the impact of the fund was positive, and that there was a continuing need for financing (USAID 1995c:44-49). The evaluation also found that FUNDEX unfairly held up funds for CINDE in 1994. FUNDEX granted funds to CINDE based on a performance score related to CINDE's achievements. The evaluation noted that FUNDEX's monitoring methodology had a counterproductive effect on CINDE's capacity to implement its programs, since it was incorrectly imposing financial cuts to important and successful programs (USAID 1995c:45-47). The USAID Mission and the Government of Costa Rica have agreed to continue funding for trade liberalization under the overall umbrella of the Costa Rica/USA Foundation, rather than maintaining a separate fund with its own administrative costs.

The recently created Costa Rica/USA Foundation (CRUSA) is an example of an endowment with a broader scope. CRUSA, created to continue development activities when USAID/Costa Rica closes in 1996, is a grant-making foundation that supports sustainable development through technical cooperation, training, and technology transfer between the United States and Costa Rica. One priority is to provide technical assistance to the Costa Rican government to reform state institutions, strengthen local governments, and decentralize national government functions. To establish the endowment, CRUSA will receive remaining funds from selected local currency trust funds managed by USAID/Costa Rica. The endowment currently is worth \$12 million, but is expected to reach \$25 million.

CRUSA has an assembly of ten founding members, half Costa Rican and the other half American. It also has a five-member Board of Directors, one of whom is appointed by the U.S. Ambassador to Costa Rica. Since USAID will no longer have an in-country presence, the endowment funds will be monitored by the founding members and annually reviewed by the Controller General of the Republic of Costa Rica.

Africa

The bulk of USAID's experience in the creation of endowments has been in Latin America. Three local currency endowments in Africa have been identified, however: the Family Life Association of Swaziland, the Ghana Community Enterprise Development and Investment Trust, and the Madagascar Environmental Endowment Foundation.

In September 1992, USAID began a project with the Family Life Association of Swaziland (FLAS) to improve and expand family planning services; an endowment of about \$1.7 million was created (USAID 1992:4). In this case, USAID provided an endowment to an existing institution (established in 1979) that had a successful track record. Since the endowment was provided through a project arrangement, USAID plays a larger role in monitoring and oversight. During the life of the project, USAID will work with FLAS to select activities to be supported with endowment income, monitor their implementation, and evaluate their results (USAID 1992:5). A 1995 evaluation noted that FLAS largely had achieved its strategic goals (Coopers and Lybrand 1995:15). However, the evaluation recommended that FLAS seek additional sources of funding, as well as make investments outside Swaziland to obtain higher rates of return. Unless revenue generation becomes an integral part of its operations, the evaluation concludes, FLAS will not be capable of further growth or even sustain its current level of operations (Coopers and Lybrand 1995:10).

Asia

USAID's experience in establishing local currency endowments in Asia also has been limited. In Korea, two institutions were endowed with local currency funds: the Korea Development Institute and the Korean Institute for Science and Technology. Both were set up as part of the country graduation process to leave behind organizations that would continue to contribute to Korea's development. In 1992, USAID/Philippines worked with the local NGO environmental community, Philippine Business for Social Progress (a well-established NGO) and the World Wildlife Fund to create the Foundation for the Philippine Environment (FPE). FPE received an endowment valued at \$22 million, the result of two debt-for-nature swaps involving \$18 million in USAID funds.

Dollar-Appropriated Endowments

The study identified nine endowments established with appropriated dollar funds: the Indonesia Biodiversity Foundation; the International Center for Diarrheal Disease Research/Bangladesh; the Nepal National Social Welfare Association; the Swazi Business Growth Trust; the Ecological Trust Fund (Panama); the Nature Conservation Fund (Mexico); the Centro Asesor para el Desarrollo de los Recursos Humanos (Honduras); PROFAMILIA (Colombia); and the Arias Foundation (Costa Rica). The establishment of an endowment for the Kenan Institute Asia (Thailand) was approved in June 1996, and

several other endowment proposals are in the planning stages. Three dollar-funded endowments are highlighted below.

Panama

A \$25 million Ecological Trust Fund was established in Panama in 1995 (USAID 1995d). This endowment is part of USAID's Natural Resources Management (MARENA) project, which was designed to help Panama's public and private organizations manage the country's renewable natural resources, especially in the Panama Canal Watershed. The \$25 million endowment was funded by USAID (\$8 million), the Nature Conservancy (\$2 million), and the Government of Panama (\$15 million, consisting of reflows from a previous USAID project). The endowment is set up as a trust agreement, with the Nature Conservancy as trustee. The Natura Foundation, a Panamanian NGO, is the endowment beneficiary. Half of the endowment earnings are designated for the Panamanian government's Institute for Renewable Natural Resources to carry out environmental activities related to the MARENA project; the remainder is for grants to NGOs. The activities of the Natura Foundation will continue after the MARENA project ends and USAID/Panama closes.

According to USAID/Panama, there were no local NGOs with sufficient experience to manage the endowment, so the Mission is using a U.S. NGO as a financial intermediary and to provide programmatic oversight. USAID's monitoring of the endowment will end when the MARENA project does, in 1998. An interesting accountability requirement in the trust agreement is that the results of the Natura Foundation's annual audit will be published in a "leading and widely circulated newspaper in Panama, as well as distributed to a broad spectrum of the local environmental and conservation NGO community" (USAID 1995d:27).

Mexico

USAID provided \$19.5 million to establish an endowment for an environmental grant-making foundation in Mexico, the Mexican Fund for the Conservation of Nature (FMCN). The endowment will enable FMCN to finance biodiversity grants to Mexican NGOs. Project funding was reserved as "parallel financing" under the U.S. Government commitment to the Global Environment Facility (GEF), and was subsequently apportioned to the USAID/Mexico budget (USAID 1995b:6).

The institutional strengthening of FMCN was a prerequisite to establishing the endowment. USAID provided \$500,000 in 1994 for FMCN start-up and training activities. In addition, World Wildlife Fund and the Nature Conservancy assisted with the development of FMCN and the design of the endowment. One characteristic of the foundation design process was its emphasis on participation. Through six regional meetings, local conservation experts were invited to comment on how FMCN could best

respond to local conservation needs. More than 450 individuals, representing 250 groups from 30 Mexican states, participated (USAID 1995b:27).

Costa Rica

USAID funding of the Arias Foundation is an example of support to an existing local foundation. Former Costa Rican President Oscar Arias Sánchez founded the Arias Foundation for Peace and Human Progress, endowing it with the monetary award from his 1987 Nobel Peace Prize. The foundation's mission is to promote sustainable development in Central America through programs focusing on women, conflict resolution, demilitarization and disarmament, and philanthropy. The Arias Foundation has an endowment of approximately \$2 million, as well as a diverse funding base. In 1993, USAID provided a \$500,000 endowment, the earnings of which are to cover part of the Foundation's operating expenses, to help ensure the financial sustainability of the organization.

The Enterprise for the Americas Initiative

The Enterprise for the Americas Initiative (EAI) was launched by the United States Government in June 1990 to reduce the debt burden of Latin American and Caribbean nations. Under the EAI, the United States has reduced the foreign assistance and food aid debts of Argentina, Bolivia, Chile, Colombia, El Salvador, Jamaica, and Uruguay by \$875 million. In exchange for debt reduction, each country agreed to establish a local currency fund to support environmental and child survival programs (U.S. Department of Treasury 1996:1). These funds are set up as endowments.

In each country, local boards of directors are established to govern the use of the EAI funds. The local boards are composed of a majority of local NGO representatives; a representative of the U.S. government; and representatives of the host government. EAI funds differ from USAID-funded endowments in that a U.S. government representative sits as a voting member on the Board of Directors. If there is a USAID Mission in the country, a USAID representative serves on the Board; if there is no USAID Mission, the board representative is a senior U.S. Embassy official. Another distinguishing feature of the EAI funds is the existence of a Washington-based EAI board. Its role is to advise the U.S. Government on EAI negotiations with host country governments, as well as review the composition of local boards and the annual operation of the funds (U.S. Department of the Treasury 1996:3).

Of the seven countries that have received debt reduction, Bolivia, Chile, El Salvador, Uruguay and Jamaica have operational boards that have begun disbursing funds. While most EAI funds are housed in private foundations established specifically for the EAI program, Bolivia's fund of \$21.8 million is housed in a government agency, FONAMA (the National Environmental Fund) (Asselin et al. 1996:7,35). A recent evaluation pointed out a

number of problems with implementation of the fund due to its links to a government agency. One lesson learned from Bolivia's experience is the importance of insulating a fund from "national political currents" and turnover in ministries (Asselin et al. 1996:37).

Characteristics of USAID-Funded Endowments

USAID has had substantial experience with endowments. The study uncovered about 35 endowments funded directly by USAID. Of these, nine were funded with dollar appropriations, and the rest with local currency. The smallest endowment is \$400,000 and the largest, \$118 million. Half the endowments were for \$5 million or less; only three were over \$50 million. Most of the endowments are located in Latin America and the Caribbean. Only one endowment was funded by USAID/Washington; the rest were Mission-funded. About three-fourths of the endowments have been established since 1990.

Most of the USAID endowments are for activities in the environment and agriculture (agricultural education, research, development, and policy institutes). The majority focused on a particular sector (rather than broad development efforts), and were designed to last indefinitely. Several endowment agreements included a matching fund requirement to encourage the organization to leverage additional endowment financing from other sources.

USAID has provided endowments under two organizational scenarios: (1) to provide some measure of financial security to individual institutions; and (2) for local grant-making organizations. Examples of the first model are the endowments to the International Centre for Diarrheal Disease Research in Bangladesh and to educational institutions such as EARTH in Costa Rica and Zamorano in Honduras. The Indonesia Biodiversity Foundation and the recently created Costa Rica/USA Foundation are examples of local grant-making organizations. The majority of endowments have been for the operation of individual organizations, but endowments for local grant-making organizations recently have been increasing.

In most cases, USAID provided funding to an existing institution with a successful track record. In other instances, particularly for local grant-making organizations, a new organization was established to "house" the endowment. In these cases, USAID usually provided considerable technical assistance to prepare the organization to manage the endowment funds and its grant-making programs.

USAID also has used endowments as part of its exit strategy for four "graduating" countries: Korea, Portugal, Costa Rica and Panama. The Luso-American Development Foundation in Portugal and CRUSA in Costa Rica both have broad, multisectoral mandates. The Korea and Panama endowments are sectoral: Korea's are for the development of science and technology; the Panama endowment is for environmental activities.

USAID oversight

Both local currency and dollar-appropriated endowments have built-in accountability measures to ensure the integrity of operations and the continuation of the program purpose. All dollar-funded endowments approved since July 1994 have been required to follow USAID's policy guidelines (PD-21). The accountability measures for endowments include the following:

- USAID involvement in the design of the endowment agreement, which specifies the purpose of the funds and how they will be managed. PD-21 provides guidance in this regard (USAID 1994a).
- USAID can approve the initial Board of Directors (or Trustees). In some cases, USAID has appointed a member of the Board of Directors or Trustees to manage the endowment funds. A USAID representative often participates on the Board of Directors or Trustees in an official, non-voting capacity (USAID 1994a:15).
- During the period of oversight (usually 5-10 years), USAID can receive copies of the organization's annual audits and performance reports (USAID 1994a:15).
- For dollar-appropriated endowments, all funds are required to be invested in financial instruments offered in the United States through a U.S.-based financial intermediary. This limitation does not prohibit investment in global securities, since funds may be invested in a mutual fund that includes global investments (USAID 1994a:7).

OTHER DONOR EXPERIENCE WITH ENDOWMENTS

Many donors do not use endowments, and experience to date has been limited mainly to the environmental sector. Based on available information and contacts with several donors, donor involvement with endowments appears to be limited. Japan, Germany (German Technical Cooperation Agency [GTZ]), and Great Britain (Overseas Development Administration [ODA]) have little experience with endowments. Switzerland (Swiss Agency for Development and Cooperation [SDC]) has some experience with endowment funds, but the results have not encouraged them to continue. The SDC encountered problems in areas such as the administration of funds, long-term planning, inflation, use of the initial capital, and sustainability of the funds.

The World Bank also has little experience with endowments, although it occasionally has used trust funds to finance specific projects. The World Bank's involvement with endowments has been through the Global Environment Facility (GEF), which was created in 1990 to assist developing countries with projects that protect the environment. The GEF is jointly implemented by the World Bank, the United Nations Development Program (UNDP), and the United Nations Environment Program (UNEP).

The following section briefly examines donor involvement with endowments, including case studies of an endowment administered by the Inter-American Development Bank and a fund set up by Switzerland for debt reduction. The rest of the section focuses on National Environmental Funds (NEFs) that have been supported by donors.

Inter-American Development Bank (IDB)–Regional Fund for Agricultural Technology²

The IDB, a multilateral bank that makes both grants and loans, has had little experience with endowments. However, the Bank recently has been involved in setting up the Regional Fund for Agricultural Technology, an endowment that will be initiated in 1996. In 1995, the IDB and several Latin American nations began to discuss the need to create a fund to promote and finance joint research and development activities considered strategically important to the region (Pineiro and Trigo 1996:5). Funds for the endowment will come from contributions by IDB member countries, and the goal is to secure \$200 million. As the fund's Secretariat during the initial three-year phase, the IDB is responsible for administering financial resources. The fund's Board of Directors, which has one

² Information on the Regional Fund for Agricultural Technology was obtained in part from interviews with Ruben Echeverría, Environment Division, IDB, and Laura Bocalandro, Attorney, IDB, on May 22, 1996.

representative from each contributing country or organization, is responsible for deciding funding priorities and allocating resources among projects.

The Swiss Debt Reduction Facility

In 1991, the Swiss Government established the Swiss Debt Reduction Facility (SDRF), a special fund for debt relief operations. The purpose of the SDRF is to assist countries to reduce their external debt with foreign governments, private commercial banks, and international financial institutions such as the World Bank and the International Monetary Fund. In return for the debt write-off, the debtor governments place the local currency equivalent of a small portion of the original debt into a national "counterpart fund," which can be an endowment, a revolving fund or a sinking fund. This fund then is used to finance domestic development programs (Blesse-Venitz et al. 1995). As of 1995, debt relief agreements had been signed with 17 debtor countries. The counterpart funds are used, for example, for micro- and small enterprises, environmental programs, and social sector activities (Blesse-Venitz et al. 1995). Some funds are managed solely by NGOs, while others are under the control of the government.

National Environmental Funds

Several donors, including Germany, Switzerland, Canada, the Netherlands, Norway, the World Bank, and the Inter-American Development Bank, have supported National Environmental Funds (IPG 1995b:21). NEFs are financing mechanisms designed to provide long-term sustainable support for the conservation of biodiversity, to strengthen local environmental institutions, or to promote sustainable development. Not all NEFs are permanent endowments; they also can be sinking funds, revolving funds, or debt-for-nature swaps (IPG 1995b:5).

NEFs have a number of advantages, such as: providing a mechanism for expediting and catalyzing national environmental priorities; increasing opportunities for local ownership of environmental programs; strengthening the role of local NGOs; providing sustainable financing for environmental programs; and serving as a means for donor coordination in the environmental sector (The World Conservation Union et al. 1994:6). On the other hand, there are several disadvantages of NEFs. The environment may be treated as an independent sector at the expense of other sectors, or an endowed organization may focus on fund-raising instead of program activities when there is a matching funds requirement. Government-dominated NEFs may be susceptible to changes when governments change. And finally, donors may be concerned about losing control over the funds or whether they will receive adequate recognition for their funding role (IPG 1995b:6).

NEFs tend to be governed by semi-autonomous entities situated within a government ministry, by NGOs, or by trustees selected from the NGO community (The World Conservation Union et al. 1994:13). Some new independent NGOs or charitable trusts are

set up to manage the funds, and the boards of directors are composed of representatives from both government and nongovernment sectors. NEFs receive and manage money from a variety of sources, such as national governments, debt-for-nature swaps, bilateral debt reduction agreements, and direct grants from bilateral and multilateral aid agencies (The World Conservation Union et al. 1994:21). The United States has supported the creation of 15 of the existing environmental funds, involving approximately \$250 million in U.S. government resources (IPG 1995b:8).

The Global Environment Facility (GEF), a major source of NEF funding, finances projects in four areas: reduction of greenhouse gases, conservation of biological diversity, pollution control in international waters, and combating ozone depletion (The World Conservation Union et al. 1994:21). The GEF supports eleven trust-like national or regional funds on biodiversity conservation around the world (IPG 1995a:13). Trust funds established with the GEF are set up as projects for the first five years of the fund. During this time, the Facility helps design and operate the fund. Two examples of endowed trusts under the GEF are the Bhutan Trust Fund for Environmental Conservation and the National Trust Fund for Protected Areas in Peru (see Appendix C for descriptions of these funds).

International NGOs that have organized and funded debt-for-nature swaps also have been a source of technical assistance for NEFs (The World Conservation Union et al. 1994:21). In addition, nonprofit foundations in industrialized countries are beginning to look at the potential for environmental funds. For example, a private foundation in Great Britain contributed the bulk of the money for the Guatemalan Trust Fund for Environmental Conservation, and the MacArthur Foundation in the United States has made substantial contributions to the Mexican Fund for the Conservation of Nature, Pronatura (the Dominican Republic), and the Foundation for Eastern Carpathian Biodiversity Conservation (IPG 1995a:13). In-country funding may come from taxes, fees, fines, fund-raising campaigns, and other sources.

FOUNDATIONS IN DEVELOPING COUNTRIES

While there is a substantial body of knowledge about philanthropic institutions in Canada, the United States, Western Europe, and Japan, less has been written about such organizations in the rest of the world (Biemann et al. 1992:ii). These institutions, however, can be a significant source of funding for economic and social development activities. Most foundations in the developing world have relied on external sources of funding, especially from donors and U.S. foundations. The role of local foundations becomes even more important as funding from bilateral donors is expected to decrease in the coming years.

Both the Synergos Institute and the South-North Development Initiative (SNDI) have conducted research on foundations in developing countries. Synergos, which is affiliated with the Ford Foundation, works with voluntary organizations and other community groups to develop effective, sustainable solutions to poverty-related problems. SNDI fosters the emergence of new development foundation initiatives in Southern nations. It provides technical assistance, promotes the development of foundations, and collects and disseminates information about new foundation models in developing countries (Biemann et al. 1992:ii).

In 1992, Synergos and SNDI published *A Survey of Endowed Grant-Making Development Foundations in Africa, Asia, Eastern Europe, Latin America, and the Caribbean* (Biemann et al. 1992). The survey focused on endowed organizations that were nationally located and governed. The study points out that a country's legal framework shapes its foundation sector (Biemann et al. 1992:3). Also, in some countries the concept of an endowment is uncommon, and the terminology used to describe an endowment or foundation is confusing. For example, the word for foundation in Spanish—*fundación*—can refer to many types of NGOs, not only those with an endowment (Biemann et al. 1992:2).

The survey highlighted the characteristics of foundations in different geographic regions, including their ages and sources of funding. Some of the main findings are:

- The foundation sector is diverse, dynamic, and, in most regions, young and growing.
- Some of the newer foundations are actively promoting the development of local philanthropy on a national and/or regional level.
- In Africa and Latin America, the foundation sector tends to be more established in the larger and wealthier countries (e.g., Mexico, Colombia, Argentina, Brazil, and South Africa).

- The African responses to the 1992 survey indicate there is local support for foundations—60 percent of the institutions raised some portion of their endowment funds from national private citizens.
- Asia is home to some of the oldest endowed grant-making institutions. Seventy-five percent of the survey respondents were foundations created before 1982.
- Most of the Asian foundations in the study raised significant endowment funds from in-country sources. The majority built their endowments from a single source, such as an individual, family, or corporation.
- The majority of the foundations surveyed in Eastern Europe have been established since the late 1980s.
- The Latin American institutions in the study are diverse in their organizational structure and funding. They include family and corporate foundations, foundations initiated with the support of various sectors of society, and grant-making NGOs (Biemann et al. 1992:32-36).

The Synergos Institute also completed case studies of eight foundation-like organizations (FLOs) in Asia, Africa, and Latin America (Overholt n.d.). These organizations support civil society in developing countries, leverage diverse sources of financing, serve as a new channel for the distribution of foreign aid, and act as an interface between civil society and the government and business sectors (Schearer et al. n.d.:1). Half of the foundation-like organizations in the study relied primarily on international funding sources; the other half depended more on domestic sources (Overholt n.d.:16). The study found that the FLOs created from domestic initiatives had the greatest impact on fostering local giving (Overholt n.d.:22). Also, the stronger FLOs were successful in strategic and financial planning, as well as marketing (Overholt n.d.:25). They conducted market research to understand the characteristics and needs of their clients.

Examples of local foundations that rely mainly on domestic sources of funding include Child Relief and You (CRY) in India and the Fundación para la Educación Superior (FES - Foundation for Higher Education) in Colombia. CRY was established in 1979 to support development efforts to improve the status of underprivileged children in India. From 1995 to 1996, CRY supported 96 projects and 35 fellows through grants to organizations. CRY's resources include contributions by corporations and the public, and revenues from the sale of CRY products and direct mail appeals (Schearer 1995:28). FES, a nonprofit organization created in 1964, supports education, science, cultural activities, health, income generation, and the environment through grants, technical assistance, and training.

Both FES and CRY are examples of foundations that earn revenues through the sale of products and services (Overholt n.d.:17). FES owns five financial service companies, the

after-tax profits of which go to the foundation, and CRY sells greeting cards and calendars to generate funds (Overholt n.d.:18). FES also administers permanent endowment funds with resources from individuals, NGOs, community groups, and religious organizations (Schearer et al. n.d.). Both of these organizations have been successful in building their endowments (Overholt n.d.:21).

Most local foundations, though, rely on external sources of funding. Private foundations in the United States, such as the Ford, MacArthur, and Kellogg Foundations, are one source. The Ford Foundation, for example, has provided endowment funding for FES in Colombia and the Arias Foundation in Costa Rica.

Private foundations are not only a funding source, but their experience can be valuable to developing countries that are creating philanthropic institutions. In the United States, there is a range of foundation types, including corporate, private, and community models. Although it may not be feasible to transplant the U.S. model of foundations to other geographic regions due to economic, social, legal, and cultural differences, the U.S. experience in philanthropic giving can be shared. For example, the role of board members and strategies for fund-raising may be useful to indigenous foundations.

As the Synergos Institute points out, philanthropic institutions, both in the wealthy countries of the North and in the developing world, "still supply only a small fraction of resources for social and economic development... but they are powerful forces in building civil society" (Schearer 1995:24). A major challenge for these institutions is the need to build up their endowments and leverage funding from governments, external donors, and the private sector (Schearer 1995:26).

LESSONS FROM USAID AND DONOR EXPERIENCE

USAID Evaluation Findings

It was not possible to definitively assess the effectiveness and sustainability of USAID-funded endowments in this study. Many endowments have been established since 1990 and are too new to evaluate. In addition, for most endowments either no evaluations exist, or existing project evaluations are silent regarding the status of the endowment.

The key issues discussed in the available evaluations include devaluation, increasing the endowment level, financial administration, and government involvement. Devaluation was a problem for two local currency endowments: EARTH (Costa Rica) and ADF (Dominican Republic). Devaluation became an issue for EARTH because of a delay in project implementation. The Jamaica Conservation and Development Trust and ADF both succeeded at increasing the endowment level. Two endowments experienced difficulties in administering funds (FUNDEX in Costa Rica and the EAI Fund in Bolivia). Finally, the Bolivia experience underscores the importance of maintaining nongovernmental management of an endowment.

Donor Lessons

A number of common issues have emerged regarding the establishment of endowments. The concerns discussed below are based on interviews with USAID staff, USAID document review, and information on donor experience in setting up and operating the National Environmental Funds. Common concerns include the following:

Design

- **Establishing an endowment takes considerable time and effort.** Resolving legal issues (such as ensuring the tax-exempt status of the endowed organization), writing the endowment agreement, and designing a structure for management of the funds are examples of activities requiring substantial time and effort. USAID involvement is critical at this initial stage, since the Agency can make the greatest impact on development effectiveness through the design of the endowment. During this time, USAID also can focus on strengthening the organization to prepare for managing the endowment.
- **Provide linkage with other USAID activities.** Several USAID endowments were part of larger sectoral projects, such as the Ecological Trust Fund in Panama. Creating endowments that are consistent with the Mission's strategic objectives can help ensure the sustainability of USAID activities. It usually is easier for USAID to provide

organizational strengthening and funding for start-up activities if the endowment is linked with a compatible USAID activity.

Funding

- **Adequate initial financing is needed.** An endowment must be large enough to generate earnings to finance operating costs and program activities. Making a large initial grant can provide adequate income streams, reduce administrative costs and assure program continuity. A possible concern for some donors, including USAID, is the sizeable amount of money needed for an endowment. Joint donor efforts are one solution (IPG 1995a:4).
- **Matching funds often are required.** Because of the sizeable financing requirements, many USAID-funded endowments are intentionally designed to leverage additional funds. There often is a requirement for the beneficiary organization to expand the endowment or obtain other sources of funding for operating expenses.

Organizational Issues

- **Organizational independence is important.** According to a USAID evaluation, creating an endowment fund often is necessary for the organization to become financially self-sustainable and to ensure that it does not become dependent on support from governmental or secular interests (Easterling et al. 1994:3). Another evaluation noted that it is important to insulate the endowment from national political currents and turnover in government ministries (Asselin et al. 1996:37).
- **Strong institutions are essential.** There is a clear perception that a strong, well-managed beneficiary organization is a prerequisite to funding an endowment. For existing organizations, USAID must ensure that the institution is well-established, has a successful track record, and has effective programs and financial management. If an organization is newly created for the purposes of the endowment, it must meet the Agency's minimum pre-award or "grant-worthiness" requirements. USAID often provides resources for institutional strengthening assistance.
- **Technical assistance may be needed for foundation grantees.** In some cases where USAID has endowed grant-making organizations, the local NGO community is too new or inexperienced to successfully obtain grant funds. USAID staff stressed the importance of providing technical assistance to NGO grant applicants to build their capability to compete for program grants. The endowed foundation may provide this technical assistance, or USAID may elect to finance the assistance separately.

Management

- **Committed and competent boards are essential.** A strong Board of Directors or Trustees is needed to effectively manage endowment funds and ensure the success of the endowment's program activities. Board members should be committed to the goals of the organization, support community and international development, and understand their responsibilities as board members. Some USAID staff recommend that Boards of Directors receive training related to their roles as board members.
- **Separate program and financial responsibilities.** One way of ensuring accountability for the endowment is to separate the financial management of the endowment funds from program (grant-making) decisions. In some cases, a separate Board of Trustees was established solely to manage the endowment fund. Other organizations have a small group of Board members serving as an investment subcommittee. For dollar-appropriated endowments, fund management by a U.S. investment firm is required.
- **Endowments promote greater self-reliance.** One purpose of setting up an endowment is to provide a local organization or foundation with more financial and programmatic independence. Endowments, by their very nature, involve less USAID monitoring and oversight than traditional project activities.

IMPLICATIONS FOR USAID

Compared with other donors, USAID has a substantial amount of experience in using endowments for sustainable development. Most donors do not use endowments as a financing mechanism; the few existing donor-funded endowments are primarily in the environmental sector. Switzerland has a debt reduction facility that can be used to generate endowment funds, and several donors support National Environmental Funds.

A number of foundation-like organizations—both in the United States and in developing countries—are working to expand the private philanthropic base and encourage local grant-making foundations in developing countries. The Synergos Institute and the South-North Development Initiative, in particular, are documenting experiences in this area.

USAID has directly funded at least 35 endowments; nine of these are financed with dollar appropriations, and the rest with local currency. The majority of the endowments are in the areas of environment and agricultural education, research and development. There is relatively more experience in Latin America and the Caribbean than in other regions.

The study looked at two key questions: the extent to which USAID- and other donor-funded endowments have effectively promoted the development objective(s) for which they were established, and the sustainability of these endowments. No definitive answers can be provided regarding the effectiveness and sustainability of endowments, given their newness and the limited available evaluative information. On the other hand, since all 35 endowments in this study have continued to exist, some for more than ten years, circumstantial evidence indicates they are likely to be sustainable.

Endowments appear to be one of many options for achieving sustainable development goals. They show potential for use with ongoing country programs as well as for exit countries. Establishing an endowment also can be an important adjunct to Mission programming. It is important to note, however, that this study focused on endowments as a funding mechanism, and did not assess the functioning of institutions that "house" the endowment.

Endowments can encourage self-reliance by fostering the growth of independent partners and strengthening indigenous organizations. Strong institutions appear to be critical to the success of an endowment. In many cases, USAID has provided assistance to an existing institution to prepare it for the responsibility of managing an endowment. Institutional strengthening generally was provided, as well, when a new organization was created to manage an endowment. If a significant amount of institutional strengthening is required to prepare an organization, USAID may want to consider whether an endowment is the most appropriate financing mechanism.

Because an endowment inherently involves fewer USAID operational controls, USAID should have a less prominent role in managing the endowment—and that role should decrease over time. There are some risks associated with endowments, however. Although USAID attempts to design endowments to limit its exposure, the Agency still has less control over endowments and their associated programs than with conventional bilateral or nongovernmental development activities. Financial or programmatic misconduct by Board members or foundation staff is one risk. There also are risks that the endowment principal may lose its value through devaluation or decapitalization. It is possible, as well, that endowment-sponsored activities will show little or no developmental impact. While USAID can design an endowment to minimize these risks, there is always some potential for embarrassment to the Agency because of the relative hands-off nature of an endowment.

To be successful, the rationale for and design of individual endowments must be carefully thought through. Some considerations in assessing the appropriateness of an endowment are provided below.

Deciding to use an endowment

Assess the host country environment. When considering whether to use an endowment, USAID should consider the legal, regulatory and financial "infrastructure" of the host country. Does it support (or at least not prohibit) the establishment of endowments? Is there a local philanthropic tradition? Building in opportunities for the community and the organization to participate in designing and establishing the endowment will help ensure local "ownership" of the endowment and its development activities.

Assess fit with development strategy. The purpose of the proposed endowment should be consistent with host country and USAID development priorities. The use of an endowment could be considered when it supports one of USAID's sustainable development priorities (economic growth, the environment, democracy and governance, and human capacity development) and when it falls logically within a Mission's strategic objectives. The explicit purpose of the endowment should reflect this strategic fit.

Weigh alternative financing mechanisms. An endowment is one option for financing development activities. Although an endowment allows USAID to address financial sustainability concerns, there are opportunity costs to its use. In assessing the appropriateness of an endowment, USAID staff should consider a benefit/cost analysis to look at alternate, potentially more efficient uses of financial and other resources, such as USAID staff time and the elapsed time required to establish an endowment.

Consider initial funding requirements. Since there frequently is a need for funds in addition to those earmarked for the endowment principal, endowment designers should consider setting aside funding for, among other things, feasibility studies, local legal counsel and technical assistance. This funding is even more critical when a local companion

foundation is being established. Requiring matching funds to leverage USAID resources or encourage organizational fund-raising is an additional consideration.

Next Steps

USAID can take a number of steps to more fully explore the uses and impact of endowments and related financing mechanisms.

- USAID should conduct an ex-post (field-based) evaluation to assess the effectiveness and impact of endowments. This evaluation should take place after a number of endowments have "graduated" from USAID oversight. In this evaluation, USAID should look at what types of institutions can be most effectively supported by endowments and the characteristics of viable institutions. It also would be useful to evaluate the different types of endowments (e.g., local currency, appropriated funds, and EAI funds).
- The Agency should consider formal or informal ways to coordinate assistance to Missions in assessing the appropriateness and feasibility of an endowment, creating a new organization (when necessary), and establishing the endowment. There are many ways this in-house consulting could be provided: by publicizing the names of USAID's "subject matter experts," or by setting up a working group (or "virtual team" or "list serv") to encourage USAID staff dialogue.
- Additional short studies could be prepared on this subject, primarily using information already gathered for this study. Examples of "follow-on" studies include: case studies on setting up an endowment and/or creating a local foundation; operational considerations in the design of endowments, for use by project managers and designers; how USAID might promote the use of indigenous foundations to develop civil society; and a review of the range of alternative funding mechanisms for sustainable development activities.

Conclusions

Under the appropriate circumstances, endowments appear to be a reasonable strategy for promoting sustainable development. The endowed institutions continue to exist and seem to be making reasonable development contributions. By their very nature, endowments encourage organizational self-reliance and financial sustainability, as well as USAID's gradual disengagement, thus promoting more independent partnerships. When they are adequately designed and consistent with USAID and host country development priorities, the use of endowments is a "natural" for countries graduating from USAID assistance.

Although all endowment agreements contain safeguards for financial accountability and programmatic direction, it is impossible for USAID to predict and reduce to writing every possible outcome. Thus, it is critical to select or develop a strong, competent organization in which USAID trusts and has confidence. The characteristics of viable organizations are not yet clear; these need to be explored further. Further study also is needed to assess the long-term sustainability of endowments and the effectiveness of endowment-funded development programs.

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APPENDICES

A. Inventory of USAID-Funded Endowments

ENDOWMENT NAME	COUNTRY	REGION	DATE ESTAB.	FUNDING TYPE	USAID FUNDING (in dollars)	SECTOR
Ghana Comty Ent. Devt & Invest Trust	Ghana	AFR	1992	local currency	\$3,000,000	enterprise development
Madagascar Natl Environ Endow Fund	Madagascar	AFR	1996	local currency	\$6,000,000	environment
Swazi Business Growth Trust	Swaziland	AFR	1995	dollars	\$5,000,000	private sector development
Family Life Association of Swaziland	Swaziland	AFR	1992	local currency	\$1,681,000	health/population
Int'l Ctr for Diarrheal Disease Research	Bangladesh	ANE	1996	dollars	\$1,000,000	health
Indonesia Biodiversity Foundation	Indonesia	ANE	1995	dollars	\$16,500,000	environment
U.S.-Israel binational foundations	Israel	ANE	1980s	local currency	n.a.	industrial, agric. R&D; science; education
Korea Devt Institute; Korea Inst. for Science and Technology	Korea	ANE	n.a.	local currency	est. \$70,000,000 (KDI)	science and tech. (KIST)
Nepal National Social Welfare Association	Nepal	ANE	1993	dollars	\$600,000	education
F'dation for the Philippine Environment	Philippines	ANE	1992	local currency (debt swap)	\$18,000,000	environment
Luso-American Development Foundation	Portugal	ENI	1985	local currency (ESF)	\$118,000,000	economic, social and cultural devt
PROFAMILIA	Colombia	LAC	1993	dollars	\$6,000,000	health

ENDOWMENT NAME	COUNTRY	REGION	DATE ESTAB.	FUNDING TYPE	USAID FUNDING (in dollars)	SECTOR
Arias Foundation	Costa Rica	LAC	1993	dollars	\$500,000	sustainable devel- opment
Cordillera Devt Fdn (FUNDECOR)	Costa Rica	LAC	1990	local currency	\$10,000,000	environment
Costa Rica/USA Foun- dation	Costa Rica	LAC	1996	local currency	\$12,000,000	sustainable devel- opment
Agric. College of the Humid Tropical Region (EARTH)	Costa Rica	LAC	1985	local currency	\$60,000,000	agricultural edu- cation
FUNDATROPICOS	Costa Rica	LAC	1993	local currency	n.a.	agricultural edu- cation, research
Costa Rican Export Promotion Fund (FUNDEX)	Costa Rica	LAC	1990	local currency	\$27,150,000	export promotion
Agricultural Devt Fdn (FDA)	Dominican Republic	LAC	1988	local currency	\$4,000,000	agricultural re- search
Superior Inst. of Agri- culture (ISA)	Dominican Republic	LAC	1989	local currency	\$2,400,000	agricultural educa- tion, research
Junta Agro-empresarial Dom.	Dominican Republic	LAC	1992	local currency	\$1,260,000	agricultural devel- opment
Fund. Economia y Desarrollo (FEyD)	Dominican Republic	LAC	1994	local currency	\$652,000	economic devel- opment
Pontificia Univ. Catolica Madre y Maestra (PUCCM)	Dominican Republic	LAC	1994	local currency	\$435,000	democracy
FUNDAGRO	Ecuador	LAC	1988	local currency (PL- 480)	\$3,300,000	ag research, exten- sion, educ.
Institute for Agric. Strategies (IDEA)	Ecuador	LAC	1989	local currency (PL- 480)	\$400,000	agricultural policy analysis

ENDOWMENT NAME	COUNTRY	REGION	DATE ESTAB.	FUNDING TYPE	USAID FUNDING (in dollars)	SECTOR
CADERH	Honduras	LAC	1995	dollars	\$600,000	education
Hond. Agric. Research Fdn (FHIA)	Honduras	LAC	1993	local currency	n.a.	agricultural devel- opment
Hond. Envir. Trust Fund (Fund. Vida)	Honduras	LAC	1993	local currency (PL 480)	\$10,000,000	environment
Pan-American Agric. School (Zamorano)	Honduras	LAC	1987	local currency	\$15,000,000	agricultural edu- cation
Jamaica Natl Parks Trust Fund	Jamaica	LAC	1990	local currency (debt swap)	\$400,000	environment
Mexico Nature Conserv. Fund	Mexico	LAC	1996	dollars	\$19,500,000	environment
Ecological Trust Fund (Fund Natura)	Panama	LAC	1995	dollars	\$8,000,000	environment
Argentina EAI Fund*	Argentina	LAC	1993	local currency (EAI)	--	environment and child survival
Bolivia EAI Fund*	Bolivia	LAC	1991	local currency (EAI)	--	environment and child survival
Chile EAI Fund*	Chile	LAC	1992	local currency (EAI)	--	environment and child survival
Colombia EAI Fund*	Colombia	LAC	1992	local currency (EAI)	--	environment and child survival
Initiative for Americas Fund-El Salv.*	El Salvador	LAC	1992	local currency (EAI)	--	environment and child survival
Environmental Fdn of Jamaica (EFJ)*	Jamaica	LAC	1992	local currency (EAI)	--	environment and child survival
Fund of the Americas- Uruguay*	Uruguay	LAC	1993	local currency (EAI)	--	environment and child survival

* Financed by the U.S. government (not USAID)

B. Descriptions of USAID-Funded Endowments

1. Ghana Community Enterprise Development and Investment Trust

The Community Enterprise Development and Investment (CEDI) Trust in Ghana is one of the first created with funds generated from monetization of the U.S. PL-480 Title II Program, and one of the first created in Africa (TechnoServe 1993:2). Endowments created through Title II monetization were prohibited by U.S. law until November 28, 1990, when the Agricultural Trade Development and Assistance Act of 1954 was amended (TechnoServe 1993:1). Since 1992, TechnoServe, a U.S. private voluntary organization, has invested proceeds from the sale of Title II wheat (the local currency equivalent of approximately \$3 million dollars) in the CEDI Trust Fund. The trust is used to provide partial funding for the TechnoServe/Ghana enterprise development program. The CEDI Trust can also be used as a venture capital fund for investments, loans, or loan guarantees for rural enterprise development (USAID 1994:10).

2. Madagascar National Environmental Endowment Foundation

The Madagascar National Environmental Endowment Foundation (NEEF) was established under USAID/Madagascar's Knowledge and Effective Policies for Environmental Management (KEPEM) Project. The equivalent of \$6 million in local currency was provided for an endowment. NEEF, which was recognized as a formal institution on January 25, 1996, is a grant-making foundation that finances environmental projects. It is estimated that the foundation will be able to grant approximately \$250,000 in 1997 (Source: Information provided by Robert Hanchett, USAID/Madagascar).

3. Swaziland: Swazi Business Growth Trust

The Swazi Business Growth Trust (SBGT), an NGO, was established in 1992 as the main implementer for the Swazi Business Development Project. SBGT has operational programs in the areas of training, construction services, linkages, business planning services, marketing and credit. The SBGT program is consistent with USAID/Swaziland's strategic objective of expanding the Swazi-owned small business sector. The purposes for establishing an endowment were to help ensure the survival of the organization and to assist in leveraging other donor support. A \$5 million USAID-funded endowment was established in 1995 (USAID 1994b).

4. Swaziland: Family Life Association of Swaziland

In September 1992, USAID began a project with the Family Life Association of Swaziland (FLAS) to improve and expand family planning services, and an endowment of about \$1.7 million was created. In this case, USAID provided an endowment to an existing institution (established in 1979) that had a successful track record. Since the endowment was provided through a project arrangement, USAID plays a larger role in monitoring and oversight. During the life of the project, USAID is to work with FLAS to select activities to be supported with endowment income, monitor their implementation, and evaluate their results (USAID 1992:5).

5. Bangladesh: International Centre for Diarrheal Disease Research

A \$1 million endowment for the International Centre for Diarrheal Disease Research, Bangladesh (ICDDR/B) was authorized in May 1996. The purpose of the endowment is to insulate the organization from unexpected fluctuations in income, provide fiscal flexibility to perform opportunistic research, and maintain a competitive edge as a center of excellence. ICDDR/B was founded in 1978; since that time, USAID has invested approximately \$50 million in ICDDR/B activities. Although USAID historically has been ICDDR/B's largest donor, today the Agency provides about 25 percent of the organization's annual support. However, USAID continues to be the single largest donor in absolute terms.

The \$1 million endowment is expected to leverage an additional \$3 million within one year of its disbursement, and an additional \$6 million (for a total endowment of \$10 million) after four years. An endowment of \$10 million could be expected to provide almost 10 percent of ICDDR/B's annual budget. The endowment funds are managed by the Child Health Foundation, a U.S. NGO, on behalf of ICDDR/B (Sources: (1) Interview with Caryn Miller and Claire Komives of G/PHN, 5/31/96. (2) Oot, David, n.d.)

6. Indonesia Biodiversity Foundation

The Indonesia Biodiversity Foundation (also known as KEHATI) was established in 1994 to make grants to Indonesian NGOs and scientists for environmental activities, and to provide technical leadership in the area of biodiversity conservation. Once KEHATI was established, it took about 15 months to meet the USAID "grant-worthiness" requirements in order for the endowment to be funded. A total of \$19 million was provided to the new foundation; of that, \$16.5 million became the endowment principal. Of the remaining funds, \$1.25 million went to KEHATI's initial operating costs, and the remaining \$1.25 million was used for an interim grants program. The cooperative agreement requires that a certain percentage of the annual earnings from the endowment be added to the endowment

principal, as a hedge against inflation (so the dollar value of the endowment will remain constant over time). There was no firm requirement for additional fund-raising (only on a "best-efforts" basis), and the endowment is meant to exist indefinitely. Setting up the new foundation and endowing it was very time consuming, requiring about three years of full-time effort (over a six-year period) (Sources: (1) Information provided by Jerry P. Bisson, G/ENV/ENR. (2) Interview with Jerry P. Bisson, G/ENV/ENR, 5/29/96).

7. Israel: U.S.-Israeli Binational Foundations

Local currency generated from a 1985 cash transfer grant to Israel was used to expand the endowments of three U.S.-Israeli foundations: the Binational Industrial Research and Development Foundation, the Binational Science Foundation, and the Binational Agricultural Research and Development fund. Funds also were used to establish an endowment for the U.S.-Israeli Educational Foundation, which had existed for many years and had been funded exclusively by the U.S. Information Agency (USAID 1984:12).

8. Korea Development Institute and Korean Institute for Science and Technology

The endowments for the Korea Development Institute (KDI) and the Korean Institute for Science and Technology (KIST) were set up consciously as part of the USAID "graduation" process. The intent was to leave behind two independent institutions that would further contribute to Korea's development. Although the organizations were not explicitly designed to promote U.S.-Korea linkages, that eventually occurred. Both endowments were funded with local currency; the KDI endowment was in the range of \$70 million (Source: Information provided by Charles F. Weden, Jr., DAA/ANE).

9. Nepal National Social Welfare Association

A \$600,000 endowment was established in 1993 with Save the Children-U.S. (SCUS) on behalf of a local NGO, the Nepal National Social Welfare Association (NNDSWA). The purpose of the endowment is to provide educational scholarships for orphans and other disadvantaged, low caste youths. The scholarships pay for secondary school and/or vocational schools. Over the past three years, more than 1,300 students have received scholarships. USAID has two voting positions on the NNDSWA Board of Directors for the duration of the cooperative agreement that established the endowment, and for seven years thereafter. The endowment funds are managed by SCUS, and are invested in the United States. There is no requirement to leverage funds from other donors, and the endowment was set up to exist indefinitely (Source: Information provided by Nancy Langworthy, USAID/Nepal).

10. Philippines: Foundation for the Philippine Environment

The Foundation for the Philippine Environment (FPE), an NGO, was established in 1992 to manage a proposed USAID-funded endowment. The purpose of the foundation is to provide grants for environmental activities to Philippine NGOs. When the foundation was being established, extensive nationwide consultations were held to provide input on the purpose of the foundation and to nominate representatives to the Board of Directors. USAID provided \$18 million for two debt-for-nature swaps, which yielded \$22 million for the endowment principal and additional funds for the foundation's initial operating costs and an interim grants program. Philippine Business for Social Progress (PBSP), a well-respected Philippine NGO, managed the foundation's initial program activities until permanent staff were selected. The FPE debt swaps were handled by the World Wildlife Fund, which also provided initial financial management for the foundation. There was no requirement to leverage funds from other donors; however, the FPE endowment also includes a small grant from the Bank of Tokyo. The FPE endowment is meant to exist indefinitely; there is no provision for drawing down the principal (Sources: (1) Information provided by Richard Edwards, USAID/Morocco. (2) Phone interview with Richard Edwards, USAID/Morocco, 6/14/96).

11. Portugal: Luso-American Development Foundation

The Luso-American Development Foundation (FLAD), a Portuguese organization, was created in 1985. Its goal is to contribute to Portugal's economic and social development by promoting cooperation between Portugal and the United States in the areas of science, technology, culture, education, commerce and entrepreneurship. The foundation served as the focus of USAID/Portugal's "graduation" strategy, receiving an endowment of approximately \$118 million in local currency derived from Economic Support Funds. Originally, there was extensive U.S. involvement in the management of the foundation; the U.S. Ambassador served as an active board member and the USAID Representative served as the foundation's first executive director. However, the direction and management of the foundation eventually became predominantly Portuguese, and the U.S. Ambassador no longer serves on the Board. The foundation has international recognition, but there is mixed reaction regarding the extent to which its U.S.-Portuguese "partnership" objective has been achieved. There have been no formal evaluations of the endowment (Sources: (1) Interview with David Leibson, G/ENR/UP, 6/13/96. (2) USAID 1989b).

12. Colombia: PROFAMILIA

In October 1993, USAID funded a \$6 million endowment to PROFAMILIA, the International Planned Parenthood Federation (IPPF) affiliate in Colombia. PROFAMILIA is the largest family planning provider in that country, accounting for over 65 percent of all

services offered. PROFAMILIA concluded that an endowment, combined with increased cost-recovery and diversification of services, would be the most effective financial mechanism to increase its revenues. The endowment's primary investment strategy is to guarantee PROFAMILIA a consistent annual source of income in anticipation of USAID's phase-out of population activities in Colombia.

The endowment fund has a three-member Board of Directors and is managed by a U.S.-based investment bank. The fund was financed with an initial tranche of \$4 million; \$2 million was disbursed in the second year. In September 1996, after the endowment's initial appreciation, PROFAMILIA will begin receiving 95 percent of the interest/dividends earned from the \$6 million investment fund (Source: Information provided by Craig Carlson, G/PHN/POP/FPS).

13. Costa Rica: Arias Foundation

USAID funding of the Arias Foundation is an example of support to an existing local foundation. Former Costa Rican President Oscar Arias Sánchez founded the Arias Foundation for Peace and Human Progress, endowing it with the monetary award received from his 1987 Nobel Peace Prize. Its mission is to promote sustainable development in Central America through programs focusing on women, conflict resolution, demilitarization and disarmament, and philanthropy. The Arias Foundation has an endowment of approximately \$2 million, as well as a diverse funding base. In 1993, USAID provided a \$500,000 endowment, the earnings of which are to cover part of the Foundation's operating expenses, to help ensure the financial sustainability of the organization (Sources: (1) Information provided by Rosie Murillo, USAID/Costa Rica. (2) Phone interview with Rosie Murillo, USAID/Costa Rica, 5/24/96).

14. Costa Rica: Foundation for the Development of the Central Volcanic Cordillera Region

In April 1989, USAID and the Government of Costa Rica signed a bilateral agreement for a \$17.5 million project (FORESTA) to support the sustainable development of the Central Volcanic Conservation Area of Costa Rica. Under this project, the Foundation for the Development of the Central Volcanic Cordillera Region (FUNDECOR) was established to promote natural forest management and reforestation of the area. FUNDECOR functions as a regional development agency, an integrated forest consulting firm, and a credit agency. One of the reasons for setting up this endowment was to fund the operations of the foundation after FORESTA project support ended. USAID provided FUNDECOR with a \$10 million endowment from host country-owned local currency, the income from which covers operating expenses. FUNDECOR did not start using the endowment until March of 1996, but it had been capitalizing since 1990.

FUNDECOR has a Board of Directors that makes technical decisions about programs and activities, and there is a separate five-member Board of Trustees that manages the endowment. The role of the Board of Trustees is to ensure accountability; it commissions an annual audit and approves FUNDECOR's annual budget. There also is a built-in periodic program evaluation of FUNDECOR. The endowment funds are invested, through a private, local bank in Costa Rica, in the stock market and in government bonds (Sources: (1) Phone interview with Anne Lewandowski, USAID/El Salvador, 6/3/96. (2) Church et al. 1994a).

15. Costa Rica/USA Foundation

The recently created Costa Rica/USA Foundation is an example of an endowment with a broad scope. CRUSA is a grant-making foundation that supports sustainable development through technical cooperation, training, and technology transfer between the United States and Costa Rica. One of its priorities is to provide technical assistance to the Costa Rican government in reform of state institutions, local governance strengthening, and decentralization. The foundation was created to continue development activities when the USAID Mission closes in 1996. To establish the endowment, the foundation will receive resources remaining in selected local currency trust funds managed by USAID/Costa Rica. The endowment currently is worth \$12 million, but is expected to reach \$25 million.

CRUSA has an assembly of ten founding members, half Costa Rican and the other half American. It also has a five-member Board of Directors, one of whom is appointed by the U.S. Ambassador to Costa Rica. Since USAID will no longer have an in-country presence, the endowment funds will be monitored by the founding members and annually reviewed by the Controller General of the Republic of Costa Rica (Sources: (1) Information provided by USAID/Costa Rica. (2) Phone interview with Betsy Murray, formerly with USAID/Costa Rica, 5/24/96).

16. Costa Rica: Agricultural College of the Humid Tropical Region

In 1985, USAID and the Government of Costa Rica agreed to jointly fund the establishment of the Agricultural College of the Humid Tropical Region (EARTH), a four-year undergraduate institution. To achieve the long-term financial viability of the College, a \$60 million local currency endowment fund was established. The endowment was designed to help cover the College's operating expenses. A Board of Trustees manages the income from the endowment, which is invested in the Central Bank of Costa Rica. USAID also provided grants to EARTH during the 1985-1995 period, mainly for the construction of the university (Sources: (1) Phone interview with Arturo Villalobos, USAID/Costa Rica, 5/29/96. (2) Hansen 1990).

17. Costa Rica: FUNDATROPICOS

In 1993, local currency was made available to establish an endowment for a new foundation, FUNDATROPICOS. The income from the endowment supports the programs of the Tropical Agricultural Center for Research and Education (CATIE) in Costa Rica. CATIE's activities include scientific research in agriculture and natural resources in the American tropics, and graduate education and training (USAID 1994d:3).

18. Costa Rican Export Promotion Fund

The Costa Rican Export Promotion Fund (FUNDEX) was set up to provide grants to organizations and agencies that promote foreign investment and exports. In October 1990, the Government of Costa Rica and USAID agreed to allocate \$27.15 million to FUNDEX from ESF local currency. The main beneficiary of FUNDEX was the Costa Rican Coalition for Development Initiatives (CINDE), a private sector institution established in 1982 with USAID support. In terms of USAID oversight, USAID was to assume an active role in monitoring of fund operations during the first four years. FUNDEX was managed by a five-person Board of Directors, and the endowment funds were invested in Central Bank bonds to avoid the effects of inflation (Sources: (1) Interview with Kenneth A. Lanza, G/EG/EIR, 5/22/96. (2) Phone interview with Luis Solera, USAID/Costa Rica, 6/4/96. (3) USAID 1990a).

19. Dominican Republic: Agricultural Development Foundation

USAID provided a grant to the Agricultural Development Foundation (ADF) in 1987 to promote research in nontraditional crops, establish a rapid-response capability for agribusiness and farmers, establish a technical information center, and set up an endowment to support the foundation. The endowment was established in 1988 with approximately \$4 million in local currency. The purpose of the endowment was to finance the operational costs of the ADF, as well as to support agricultural investigations through subgrants to other agricultural institutions (Sources: (1) USAID 1993a. (2) Information provided by Luis C. Gonzalez, USAID/Dominican Republic).

20. Dominican Republic: Superior Institute of Agriculture

USAID has been providing support to the Superior Institute of Agriculture (ISA) since its creation in 1962. In 1989, USAID and the Government of the Dominican Republic agreed to provide ISA with a large grant to enhance its educational and research capacities in nontraditional agricultural exports (Hansen 1990:16). The grant provided for the "strengthening" of an endowment fund to generate sufficient income to meet ISA core costs

and to provide faculty and staff adequate salary levels (USAID 1989a:11). The endowment was established with \$2.4 million in local currency generated from Economic Support Funds (Hansen 1990:16).

21. Dominican Republic: Junta Agroempresarial Dominicana

The Junta Agroempresarial Dominicana (JAD) is a Dominican NGO whose main purpose is to support, promote and foster nontraditional agricultural development through technical assistance for agricultural projects in the Dominican Republic. The endowment was established in 1992 using host country owned local currency from PL-480 commodity sales and ESF agreements; the current dollar value of the endowment is \$1,260,000. The purpose of the endowment is to encourage the financial sustainability efforts of JAD, a promising NGO partner; in reality, the endowment will provide more of a financial "cushion" than independence. There is a requirement for leveraging the endowment funds; if the match is not met within a specified time frame, the endowment grant will revert to a loan. The endowment funds are invested and managed locally (Sources: (1) Phone interview with J. Michael Deal, USAID/Dominican Republic, 6/4/96. (2) Information provided by Luis C. Gonzalez, USAID/Dominican Republic, 6/3/96).

22. Dominican Republic: Fundacion Economia y Desarrollo

The Fundación Economía y Desarrollo (FEyD) is a Dominican NGO that promotes the economic advantages of an open and free market and encourages the adoption of economic policies to support development. The endowment for FEyD was established in 1994 using host country-owned local currency from PL-480 commodity sales and ESF agreements. The purpose of the endowment is to encourage FEyD's financial sustainability. The current dollar value of the endowment is \$652,000. Endowment earnings will provide about 30 percent of FEyD's basic annual income. There is a requirement for leveraging the endowment funds; thus far, FEyD has raised 7.5 million pesos of the 9 million pesos required for the match. The endowment funds are invested and managed locally (Sources: (1) Phone interview with J. Michael Deal, USAID/Dominican Republic, 6/4/96. (2) Information provided by Luis C. Gonzalez, USAID/Dominican Republic).

23. Dominican Republic: Pontificia Universidad Catolica Madre y Maestra

An endowment was established for Pontificia Universidad Católica Madre y Maestra (PUCCM) under USAID/Dominican Republic's Democratic Initiatives project. The purpose of the PUCCM activity is to encourage the expansion and consolidation of democratic institutionalization processes in the Dominican Republic. The endowment, established in 1994, has a current dollar value of \$435,000. The endowment was

established using host country-owned local currency from PL-480 commodity sales and ESF agreements. The purpose of the endowment is to encourage PUCCM's financial sustainability, although PUCCM, a large organization, does not rely heavily on the endowment. There is a requirement for leveraging the endowment funds; the endowment principal will revert to a loan if the required match is not met. The endowment funds are invested and managed locally (Sources: (1) Phone interview with J. Michael Deal, USAID/Dominican Republic, 6/4/96. (2) Information provided by Luis C. Gonzalez, USAID/Dominican Republic).

24. Ecuador: Foundation for Agricultural Development

In 1986, the Government of Ecuador established the Foundation for Agricultural Development (FUNDAGRO), which was designed to achieve a more integrated research, extension, and education system (Hansen 1990:12). FUNDAGRO works with public and private sector institutions in the joint selection, planning, and funding of long-term applied commodity research and extension programs. In 1988, USAID provided FUNDAGRO the local currency equivalent of \$3 million from PL-480 funds for an endowment (Hansen 1990:13).

25. Ecuador: Institute for Agricultural Strategies

The Institute for Agricultural Strategies (IDEA) was created in 1985 under a grant agreement between USAID and the Government of Ecuador. The purpose of IDEA is to stimulate agricultural policy analysis, discussion, and debate within the private sector. A \$400,000 endowment for IDEA was established in 1989 by USAID from PL-480 local currency. The rationale for establishing both FUNDAGRO and IDEA was to support independent, private sector institutions that could perform development tasks more effectively than the public sector (Hansen 1990:3).

26. Honduras: CADERH

In August 1995, USAID established a \$600,000 dollar-funded endowment for the Centro Asesor para el Desarrollo de los Recursos Humanos (CADERH), which was formed in 1982. The endowment will be used to support CADERH's assistance to vocational skills training institutions for low income Hondurans (USAID 1995a).

27. Honduran Agricultural Research Foundation

In 1984, USAID helped establish the Honduran Agricultural Research Foundation (FHIA), awarding a 10-year grant to assist with the foundation's operating and program expenses (Hansen 1990:14). In 1993, USAID and the Government of Honduras granted funds to FHIA for the establishment of an endowment. Local currency for the endowment was generated from Economic Support Funds. There is a requirement for FHIA to match a percentage of the total USAID/Government of Honduras contribution to the endowment. The formula was designed to encourage FHIA to expand the endowment and build a long-term support constituency for its research (Hansen 1990:14).

28. Honduran Environmental Trust Fund

The Honduran Environmental Fund project agreement was signed by USAID/Honduras in 1993 to capitalize an Environmental Protection Fund (FOPMA). The purpose of the project is to strengthen and expand environmental protection and natural resource management activities carried out by NGOs. Funds for the endowment include \$10 million in local currency generated from PL-480. The FOPMA is managed by the Honduran Foundation for Environment and Development (VIDA), and funding is made available to VIDA for environmental NGO subprojects (Source: Information provided by Victor Bullen, PPC/ENV).

29. Honduras: Pan-American Agricultural School

The Pan-American Agricultural School in Zamorano, Honduras (also known as Zamorano), was established in 1942 as a private, post-secondary school to train agriculturalists throughout Latin America. From 1942 to 1957, Zamorano covered its finances from a trust fund established by the United Fruit Company, and after that, from additional funds generated by student fees, private and public donations, and sales of products grown at the school (Winrock International 1988). In 1987, negotiations were conducted between Zamorano, the Government of Honduras, and USAID regarding the possibility of securing a USAID grant to expand the endowment. Negotiations were concluded that same year, and a project agreement provided Zamorano with the local-currency equivalent of \$15 million to establish an endowment. The objectives of the endowment were to provide a secure source of funding for the institution and to assist and encourage Zamorano in its efforts at long-term capitalization (Winrock International 1988:17-18). There is a 25 percent matching requirement to encourage the school to mobilize funds from other sources (Hansen 1990:17).

30. Jamaica National Parks Trust Fund

The Jamaica National Parks Trust Fund was established under the Protected Areas Resources Conservation (PARC) Project, which started in 1990. The project was designed to implement two pilot national parks and fund a series of activities leading to the establishment of a National Parks and Protected Areas System. The purpose of the trust fund was to provide for the long-term financial solvency of the new park system (Church et al. 1994c:4). USAID negotiated with the Nature Conservancy and the Government of Jamaica to convert approximately \$400,000 in U.S. dollar debt to a local currency endowment held by a national environmental NGO, the Jamaica Conservation and Development Trust (JCDDT) (Church et al. 1994c:5-6).

31. Mexico Nature Conservation Fund

USAID provided \$19.5 million to establish an endowment for an environmental grant-making foundation in Mexico, the Mexican Fund for the Conservation of Nature (FMCN). The endowment will enable FMCN to finance biodiversity grants to Mexican NGOs. Project funding was reserved as "parallel financing" under the U.S. Government commitment to the Global Environment Facility (GEF), and was subsequently apportioned to the USAID/Mexico budget.

FMCN has a 21-member Board of Directors who are responsible for approving an overall strategic plan, an annual operating plan and budget, and the portfolio of projects recommended for funding. The endowment agreement calls for USAID oversight for ten years, during which time USAID will retain the right to approve FMCN investment management contracts for the USAID account. USAID also will receive annual financial audits, annual financial and operating plans, evaluations, and other reports necessary to monitor FMCN. The endowment is structured to ensure that FMCN attracts matching funds. FMCN is required to raise at least \$10 million in contributions by December 30, 1998; failure to reach this goal may lead to restrictions on the disbursement of endowment income. USAID also can terminate the endowment and recover all funds if the full \$10 million is not raised by the year 2000 (Sources: (1) USAID 1995b. (2) Interview with Eric D. Fajer, LAC/ENV, 5/22/96).

32. Panama: Ecological Trust Fund

A \$25 million Ecological Trust Fund was established in Panama in 1995. This endowment is part of USAID's Natural Resources Management (MARENA) project, which was designed to help Panama's public and private organizations manage the country's renewable natural resources, especially in the Panama Canal Watershed. The \$25 million endowment was funded by USAID (\$8 million), the Nature Conservancy (\$2 million), and

the Government of Panama (\$15 million, consisting of reflows from a previous USAID project). The endowment is set up as a trust agreement, with the Nature Conservancy as trustee. The Natura Foundation, a Panamanian NGO, is the endowment beneficiary. Half of the endowment earnings are designated for the Government of Panama's Institute for Renewable Natural Resources to carry out environmental activities related to the MARENA project; the remainder is for grants to Panamanian NGOs. The activities of the Natura Foundation will continue after the MARENA project ends and USAID/Panama closes (Sources: (1) USAID 1995d. (2) Interview with Michael C. Trott, M/AS/OMS, 5/24/96. (3) Conference call with Guy Branch, George E. Like, and Jesus Saiz, USAID/Panama, 5/28/96).

33. Argentina EAI Fund

The Argentina fund was established under the Enterprise for the Americas Initiative (EAI), a U.S. government program of debt forgiveness in exchange for the commitment of developing country resources for sustainable environmental and child survival activities. The operating by-laws of the Argentine Americas Board were provisionally approved by the EAI Americas Board in September 1995. Argentina has appointed members to its local Board of Directors, but as of May 1996, had not approved projects or disbursed funds (U.S. Department of the Treasury 1996:4,20).

34. Bolivia EAI Fund

The Bolivia EAI fund, the first to be established and evaluated, is an EAI Environmental Account of \$21.8 million in a government agency, FONAMA (the National Environmental Fund) (Asselin et al. 1996:7). It began operations in September 1992. A January 1996 evaluation pointed out a number of problems with implementation of the fund due to its links to a government agency (Asselin et al. 1996). Most of the other EAI funds are private foundations established specifically to administer the EAI program (Asselin et al. 1996:35). A lesson learned from Bolivia's experience is the importance of insulating a fund from "national political currents" and turnover in ministries (Asselin et al. 1996:37).

35. Chile EAI Fund

The Chile EAI Fund totalled almost \$12 million as of May 1996 (U.S. Department of the Treasury 1996:18). Chile's Americas Board awarded grants in 1995 for activities to conserve natural resources, improve local environmental conditions for children, and prevent air contamination (U.S. Department of the Treasury 1996:17).

36. Colombia EAI Fund

The Council of the Americas in Colombia, the name of the local America's Board of Directors, was formally installed on April 22, 1995 (U.S. Department of the Treasury 1996:20). The Council consists of five representatives from local NGOs, two representatives from the Government of Colombia, and one from the United States Government. As of May 1996, it had not approved projects or disbursed funds (U.S. Department of the Treasury 1996:4).

37. El Salvador EAI Fund

The Initiative for the Americas Fund in El Salvador began operating in November 1994. In January 1995, it awarded \$3.6 million in grants for projects related to reforestation, nurseries, agroforestry, and soil and water conservation. The fund is overseen by an Administrative Council composed of a representative from the U.S. government (the USAID director), two representatives from the government of El Salvador, and four from NGOs (U.S. Department of the Treasury 1996).

38. Jamaica: Environmental Foundation of Jamaica

The Environmental Foundation of Jamaica (EFJ) was established in 1991 under the Enterprise for the Americas Initiative. The foundation's endowment principal is expected to reach about \$18 million over the course of 10-12 years of payments. The endowment is established in perpetuity, with no provision for drawing down the principal. The EFJ was a new organization established for the purpose of managing the endowment. The U.S. government representative, who was USAID/Jamaica's Deputy Mission Director, was a full board member, and one of three individuals responsible for setting up the foundation. The board and the foundation now are managed primarily by Jamaicans, with the U.S. representative in a less prominent role. Although the foundation initially had more than adequate funding available for project proposals, Jamaican NGOs now must compete among themselves for funds. The result is increased competence among Jamaican NGOs (Source: Phone interview with Marilyn A. Zak, USAID/Dominican Republic, 6/4/96).

39. Uruguay EAI Fund

The agreement between the Republic of Uruguay and the United States that created the Fund of the Americas in Uruguay was signed in 1991. On July 25, 1995, about \$2 million was approved for the first 35 projects. One of the projects combined both environmental and child survival activities. Christmas cards made of recycled paper were distributed to homeless children who affixed local flowers to the paper. The project helped

to nourish the children and teach them about the diversity of Uruguay's flora (U.S. Department of the Treasury 1996:19).

C. Descriptions of National Environmental Fund (NEF) Endowments

Bhutan Trust Fund for Environmental Conservation

The Bhutan Trust Fund for Environmental Conservation (BTF), created in 1991 by the United Nations Development Program (UNDP), the World Wildlife Fund (WWF), and the Royal Government of Bhutan (RGOB), is designed to provide a secure source of financial support for a variety of conservation programs in the country. The Global Environmental Facility (GEF) has committed \$10 million to the Fund, while the Netherlands and Norwegian governments and WWF each have contributed \$1 million. The goal is to raise \$20 million for the endowment, which should generate approximately \$1 million per year in interest (The World Conservation Union et al. 1994:39). The BTF Management Board has five members, including one each from the UNDP and WWF and three from the RGOB. The Management Board decides policy issues and reviews and approves projects and work plans. UNDP manages the assets and invests them in U.S. and European Government bonds (The World Conservation Union et al. 1994:38).

Key features of the BTF include the following:

- The RGOB is committed to preserving the country's current percentage of forest cover in perpetuity as well as the current percentage of the country's area that is under protected area status (The World Conservation Union et al. 1994:40).
- The disbursement of GEF funds to the BTF is contingent upon contributions from other co-financing sources. This stipulation was seen as an effective way of requiring the BTF to solicit contributions to the trust (IPG 1995b:14).
- According to a GEF annual report, financial returns have been disappointingly low under UNDP fund management. Earnings have barely covered recapitalizing the Fund's principal. In response, a new private asset manager has been selected to pursue a more aggressive investment strategy (World Bank 1996).

National Trust Fund for Protected Areas (FONANPE–Peru)

The National Trust Fund for Protected Areas (FONANPE) was created by Decree Law in 1992 as a trust fund designed to provide sustainable funding for Peru's protected areas. At the same time, the Government of Peru created PROFONANPE, a nonprofit institution, to manage the Fund and direct the use of its investment proceeds (The World Conservation Union et al. 1994:88). The PROFONANPE by-laws established a long-term endowment. PROFONANPE is managed by a Board of Directors comprised of seven members, including three from the Peruvian Government, three Peruvian conservation NGOs, and one

from the German Technical Cooperation Agency (GTZ) (The World Conservation Union et al. 1994:88).

PROFONANPE has set a target of \$40 million for the trust fund principal. PROFONANPE received its initial support from the Canadian International Development Agency (CIDA), which provided offices and vehicles in Lima. GTZ covered PROFONANPE's operational costs for the first two years while the endowment was being capitalized (The World Conservation Union et al. 1994:88). Germany and Finland have committed additional bilateral debt reduction resources to be channelled through PROFONANPE (GEF 1995:6). Key features of FONANPE include the following:

- Seven NGOs were involved in the design of PROFONANPE. This effort has helped build stakeholder capacity at the national level by forging partnerships among local NGOs and community level participants (IPG 1995b:14).
- During its first year, PROFONANPE strengthened itself by conducting an institutional strategic planning exercise involving a dozen NGOs. It also has developed criteria for managing its small grants program, has issued requests for proposals, and has negotiated Peru's first debt-for-nature swap (GEF 1995:2).
- The financial stability provided by the trust will alleviate the Peruvian park system's inability to retain qualified personnel because of low salaries and insecure job tenure that results from budget fluctuations (GEF 1995:5).
- PROFONANPE provides a reliable window for debt donations for environmental and development purposes, an option that Peru did not have available before the GEF promoted the creation of the fund (GEF 1995:5).

D. Individuals Interviewed for the Study

USAID staff

Jerry P. Bisson, G/ENV/ENR
Guy Branch, USAID/Panama contractor (phone)
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Richard Edwards, USAID/Morocco (phone)
Eric D. Fajer, LAC/ENV
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Others

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Leslie M. Fox, Independent Consultant
Jonathan Margolis, U.S. Department of State (phone)
W. Paul Weatherly, Independent Consultant